

Message Text

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14-11

ACTION EA-10

INFO OCT-01 ISO-00 EB-07 SP-02 AID-05 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 SAJ-01 DODE-00 PM-03 H-02 L-03 PA-01 PRS-01

AGR-05 EUR-12 /106 W

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FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 5535

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E.O. 11652: N/A

TAGS: BEXP, ETRD, HK

SUBJECT: EEC OVERTAKES U.S. AS NO. 1 MARKET FOR HK

1. BEGIN UNCLASSIFIED DURING FIRST QUARTER 1975 HK EXPORTED HK\$1,550 MILLION TO THE EEC VS. HK \$1,204 MILLION TO THE U.S. IN 1974, COMPARABLE FIGURES SHOWED U.S. SLIGHTLY AHEAD WITH HK\$1,633 MILLION IN EXPORTS FROM HK. BUT HK EXPORTS TO EEC FELL ONLY 4 PERCENT DURING THE FIRST QUARTER, WHILE EXPORTS TO THE U.S DECLINED BY 26 PERCENT. WEST GERMANY ACCOUNTED FOR MUCH OF HK'S STRENGTH WITH A 26 PERCENT FIRST QUARTER INCREASE OVER LAST YEAR AND THE NETHERLAND WAS NEXT BEST WITH 3 PERCENT OVER LAST YEAR.

2. NO DOUBT, HK'S RELATIVELY STRONG DOLLAR HAS CONTRIBUTED TO THIS SHIFTING PATTERN. THE HK DOLLAR HAS BEEN RELATIVELY STRONG AGAINST THE U.S. DOLLAR AND MOST EEC CURRENCIES EXCEPT THE GERMAN MARK AND THE DUTCH GUILDER.

3. HK'S TEXTILES, HER PRINCIPLE EXPORT, HAS BEEN LOSING GROUND IN THE U.S. TO TEXTILES FROM TAIWAN, SOUTH KOREA AND JAPAN.

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FOR EXAMPLE, IN PIECE GOODS, HK'S EXPORTS DECREASED 14 PERCENT

DURING THE FIRST FOUR MONTHS OF 1975. AT THE SAME TIME, U.S. IMPORTS OF SUCH PRODUCTS FROM JAPAN CLIMBED 40 PERCENT, FROM TAIWAN 35 PERCENT, AND SOUTH KOREA 14 PERCENT. IN ADDITION TO THE STEADILY GROWING COMPETITION FROM TAIWAN AND SOUTH KOREA TEXTILES, THE DEARER HK DOLLAR HAS INCREASED HK'S RELATIVE COST DISADVANTAGES IN THE U.S. MARKET. JAPAN'S RISE, ON THE OTHER HAND, MAY BE EXPLAINED BY THE FACT THAT WE ARE COMPARING 1975'S FIRST FOUR MONTHS WITH HER RELATIVELY SLACK PERIOD IN 1974 WHEN JAPAN WAS SUFFERING BADLY FROM THE INITIAL SHOCK OF THE OIL CRISIS.

4. IF THE EEC PLANS TO OPEN GSP PREFERENCES FOR HK'S TEXTILES AS NEWSPAPERS HERE REPORTED THIS WEEK, THEN SUCH ACTION WOULD FURTHER BOOST THE EEC AS HK'S NO. 1 CUSTOMER.

5. BEGIN LIMITED OFFICIAL USE COMMENT: LESSENING HK'S DEPENDENCE ON THE U.S. MARKET HAS BEEN THE PRIME ECONOMIC OBJECTIVE IN OUR PARA AND CCP FOR SEVERAL YEARS. BUT ACTUALLY, THERE HAS BEEN LITTLE WE COULD DO DIRECTLY TO PROMOTE THIS OBJECTIVE. HK COULD POSSIBLY REGAIN SOME GROUND BY DEPRECIATING THE VALUE OF THE HK DOLLAR IN RELATION TO THE U.S. DOLLAR. WHILE THIS HAS BEEN ADVOCATED IN SOME TEXTILE CIRCLES THERE IS NO INDICATION THAT SUCH MEASURES HAVE GAINED SUPPORT AMONG TOP GOVERNMENT AND BANKING OFFICIALS.

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